

CHICOS FAS INC  
Form 10-Q  
August 27, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarter Ended: July 31, 2010**

**Commission File Number: 001-16435**

**Chico s FAS, Inc.**

(Exact name of registrant as specified in charter)

Florida

59-2389435

(State of Incorporation)

(I.R.S. Employer Identification No.)

11215 Metro Parkway, Fort Myers, Florida 33966

(Address of principal executive offices)

239-277-6200

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

At August 20, 2010, there were 179,173,044 shares outstanding of Common Stock, \$.01 par value per share.

**Chico s FAS, Inc. and Subsidiaries  
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**Chico's FAS, Inc. and Subsidiaries**  
**Consolidated Statements of Income**  
**(Unaudited)**

**(In thousands, except per share amounts)**

	<b>Twenty-Six Weeks Ended</b>				<b>Thirteen Weeks Ended</b>			
	<b>July 31, 2010</b>		<b>August 1, 2009</b>		<b>July 31, 2010</b>		<b>August 1, 2009</b>	
	<b>Amount</b>	<b>% of Sales</b>	<b>Amount</b>	<b>% of Sales</b>	<b>Amount</b>	<b>% of Sales</b>	<b>Amount</b>	<b>% of Sales</b>
<b>Net Sales:</b>								
Chico's/Soma								
Intimates	\$ 656,360	<b>69.3</b>	\$ 582,524	<b>70.1</b>	\$ 319,660	<b>68.7</b>	\$ 294,602	<b>70.2</b>
White House   Black Market	290,599	<b>30.7</b>	248,033	<b>29.9</b>	145,711	<b>31.3</b>	125,313	<b>29.8</b>
<b>Net sales</b>	<b>946,959</b>	<b>100.0</b>	<b>830,557</b>	<b>100.0</b>	<b>465,371</b>	<b>100.0</b>	<b>419,915</b>	<b>100.0</b>
Cost of goods sold	406,173	<b>42.9</b>	366,128	<b>44.1</b>	206,164	<b>44.3</b>	188,874	<b>45.0</b>
<b>Gross margin</b>	<b>540,786</b>	<b>57.1</b>	<b>464,429</b>	<b>55.9</b>	<b>259,207</b>	<b>55.7</b>	<b>231,041</b>	<b>55.0</b>
<b>Selling, general and administrative expenses:</b>								
Store and direct operating expenses	332,679	<b>35.1</b>	317,375	<b>38.2</b>	164,853	<b>35.4</b>	157,180	<b>37.4</b>
Marketing	47,091	<b>5.0</b>	34,002	<b>4.1</b>	18,011	<b>3.9</b>	16,168	<b>3.9</b>
National Store Support Center	57,782	<b>6.1</b>	54,235	<b>6.5</b>	28,982	<b>6.2</b>	28,701	<b>6.8</b>
Impairment charges	822	<b>0.1</b>	13,026	<b>1.6</b>			4,968	<b>1.2</b>
<b>Total selling, general and administrative expenses</b>	<b>438,374</b>	<b>46.3</b>	<b>418,638</b>	<b>50.4</b>	<b>211,846</b>	<b>45.5</b>	<b>207,017</b>	<b>49.3</b>
<b>Income from operations</b>	<b>102,412</b>	<b>10.8</b>	<b>45,791</b>	<b>5.5</b>	<b>47,361</b>	<b>10.2</b>	<b>24,024</b>	<b>5.7</b>
Interest income (expense), net	844	<b>0.1</b>	1,003	<b>0.1</b>	394	<b>0.0</b>	(19)	<b>0.0</b>
<b>Income before income taxes</b>	<b>103,256</b>	<b>10.9</b>	<b>46,794</b>	<b>5.6</b>	<b>47,755</b>	<b>10.2</b>	<b>24,005</b>	<b>5.7</b>

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Income tax provision	37,400	<b>3.9</b>	17,400	<b>2.1</b>	17,300	<b>3.7</b>	9,100	<b>2.2</b>
<b>Net income</b>	\$ 65,856	<b>7.0</b>	\$ 29,394	<b>3.5</b>	\$ 30,455	<b>6.5</b>	\$ 14,905	<b>3.5</b>
<b>Per share data:</b>								
Net income per common share-basic	\$ 0.37		\$ 0.17		\$ 0.17		\$ 0.08	
Net income per common & common equivalent share-diluted	\$ 0.37		\$ 0.17		\$ 0.17		\$ 0.08	
Weighted average common shares outstanding-basic	177,417		177,192		177,499		177,228	
Weighted average common & common equivalent shares outstanding-diluted	178,807		178,021		178,774		178,566	
Dividends declared per share	\$ 0.12				\$ 0.04			

*See Accompanying Notes.*

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**Chico's FAS, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(In thousands)

	July 31, 2010 (Unaudited)	January 30, 2010	August 1, 2009 (Unaudited)
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 17,559	\$ 37,043	\$ 44,143
Marketable securities, at fair value	469,829	386,500	333,367
Receivables	7,483	3,922	6,110
Income tax receivable	657	312	1,156
Inventories	146,899	138,516	130,238
Prepaid expenses	27,018	24,023	26,088
Deferred taxes	9,823	9,664	15,555
<b>Total Current Assets</b>	<b>679,268</b>	<b>599,980</b>	<b>556,657</b>
<b>Property and Equipment:</b>			
Land and land improvements	42,080	21,978	20,293
Building and building improvements	85,628	82,169	83,600
Equipment, furniture and fixtures	406,682	388,392	385,503
Leasehold improvements	418,585	412,834	416,003
<b>Total Property and Equipment</b>	<b>952,975</b>	<b>905,373</b>	<b>905,399</b>
Less accumulated depreciation and amortization	(425,498)	(383,844)	(367,151)
<b>Property and Equipment, Net</b>	<b>527,477</b>	<b>521,529</b>	<b>538,248</b>
<b>Other Assets:</b>			
Goodwill	96,774	96,774	96,774
Other intangible assets	38,930	38,930	38,930
Deferred taxes	39,597	36,321	38,261
Other assets, net	4,940	25,269	27,131
<b>Total Other Assets</b>	<b>180,241</b>	<b>197,294</b>	<b>201,096</b>
	<b>\$ 1,386,986</b>	<b>\$ 1,318,803</b>	<b>\$ 1,296,001</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>Current Liabilities:</b>			
Accounts payable	\$ 101,584	\$ 79,219	\$ 82,827
Accrued liabilities	93,603	95,862	108,719
Current portion of deferred liabilities	19,681	19,625	19,160
<b>Total Current Liabilities</b>	<b>214,868</b>	<b>194,706</b>	<b>210,706</b>

**Noncurrent Liabilities:**

Deferred liabilities	137,437	142,179	152,800
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**Stockholders Equity:**

Preferred stock			
Common stock	1,789	1,781	1,774
Additional paid-in capital	276,000	268,109	259,331
Retained earnings	756,043	711,624	671,372
Other accumulated comprehensive income	849	404	18

<b>Total Stockholders Equity</b>	1,034,681	981,918	932,495
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	\$ 1,386,986	\$ 1,318,803	\$ 1,296,001
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*See Accompanying Notes.*

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**Chico s FAS, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**(In thousands)**

	<b>Twenty-Six Weeks Ended</b>	
	<b>July 31,</b>	<b>August 1,</b>
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 65,856	\$ 29,394
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	46,636	48,630
Deferred tax (benefit) expense	(3,628)	2,501
Stock-based compensation expense	5,950	4,177
Excess tax benefit from stock-based compensation	(1,011)	(115)
Impairment charges	822	13,026
Deferred rent expense, net	(4,361)	(5,787)
Loss on disposal of property and equipment	992	711
(Increase) decrease in assets		
Receivables, net	(3,578)	2,048
Income tax receivable	(346)	10,550
Inventories	(8,382)	2,175
Prepaid expenses and other	(2,666)	(4,416)
Increase (decrease) in liabilities		
Accounts payable	15,210	26,285
Accrued and other deferred liabilities	(1,574)	15,183
Total adjustments	44,064	114,968
Net cash provided by operating activities	109,920	144,362
<b>Cash Flows from Investing Activities:</b>		
Purchases of marketable securities	(82,884)	(91,331)
Purchases of property and equipment	(34,380)	(36,235)
Net cash used in investing activities	(117,264)	(127,566)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of common stock	1,378	773
Excess tax benefit from stock-based compensation	1,011	115
Dividends paid	(14,282)	
Repurchase of common stock	(247)	(90)
Net cash (used in) provided by financing activities	(12,140)	798



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Net (decrease) increase in cash and cash equivalents	(19,484)	17,594
<b>Cash and Cash Equivalents</b> , Beginning of period	37,043	26,549
<b>Cash and Cash Equivalents</b> , End of period	\$ 17,559	\$ 44,143

**Supplemental Disclosures of Cash Flow Information:**

Cash paid for interest	\$ 142	\$ 260
Cash paid for income taxes, net	\$ 39,368	\$ 5,924

**Non-Cash Investing and Financing Activities:**

Repossession of land in satisfaction of note receivable	\$ 20,000	\$
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*See Accompanying Notes.*

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**Chico s FAS, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**July 31, 2010**  
**(Unaudited)**

**(in thousands, except share and per share amounts)**

**Note 1. Basis of Presentation**

The accompanying unaudited consolidated financial statements of Chico s FAS, Inc. and its wholly-owned subsidiaries (collectively, the Company ) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by accounting principles generally accepted in the U.S. ( U.S. GAAP ) for complete financial statements. In the opinion of management, such interim financial statements reflect all normal adjustments considered necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. All significant intercompany balances and transactions have been eliminated in consolidation. For further information, refer to the consolidated financial statements and notes thereto for the fiscal year ended January 30, 2010, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on March 24, 2010. The January 30, 2010 balance sheet amounts were derived from audited financial statements included in the Company s Annual Report.

As used in this report, all references to we, us, our, and the Company, refer to Chico s FAS, Inc. and all of its wholly-owned subsidiaries.

Our fiscal years end on the Saturday closest to January 31 and are designated by the calendar year in which the fiscal year commences. Operating results for the thirteen and twenty-six weeks ended July 31, 2010 are not necessarily indicative of the results that may be expected for the entire year.

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

**Note 2. Impairment Charges**

*Long-Lived Assets*

During the first quarter of fiscal 2010 and the second quarter of fiscal 2009, we completed evaluations of long-lived assets at certain underperforming stores for indicators of impairment and, as a result, determined that the carrying values of certain assets exceeded their future undiscounted cash flows. We then determined the fair value of these assets by discounting their future cash flows using a rate approximating our cost of capital, which resulted in an impairment charge of approximately \$0.8 million and \$1.1 million in the first quarter of fiscal 2010 and second quarter of fiscal 2009, respectively.

During the first quarter of fiscal 2009, we incurred non-cash impairment charges totaling approximately \$8.1 million which are included in our consolidated statements of income within selling, general and administrative expenses. The impairments were related to the write-off of development costs for software applications that reflected our decision to deploy alternative inventory planning and allocation software.

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**(Unaudited)**

**(in thousands, except share and per share amounts)**

**Note 2. Impairment Charges (continued)***Note Receivable*

In fiscal 2007, we sold a parcel of land for \$39.7 million consisting of approximately \$13.4 million in cash proceeds, net of closing costs, and a note receivable with a principal amount of approximately \$25.8 million due on August 1, 2009 which was secured by a purchase money mortgage. During the second quarter of fiscal 2009, we determined, based on an independent evaluation of the fair value of the underlying collateral and coupled with the debtor s apparent inability to pay the note in full, that the loan was impaired. As a result, we recorded a non-cash impairment charge of approximately \$3.8 million, which was determined based on the difference between the book value of the note and the independent evaluation of the fair value of the land. During the fourth quarter of fiscal 2009, based on an updated third-party valuation of the land, we determined that the fair value of the land had declined further and an additional \$2.0 million impairment charge was necessary to adjust the note to its current fair value, less estimated costs to sell. Additionally, upon determining the note was impaired, we ceased recognizing any further interest income and also reversed year-to-date interest income of approximately \$0.8 million. On May 4, 2010, we took possession of the land in satisfaction of the note receivable and classified the land within property, plant and equipment on our balance sheet.

**Note 3. Restructuring Charges**

During the fourth quarter of fiscal 2008, in an effort to reduce costs and enhance efficiencies, we announced a workforce reduction that included the elimination of approximately 180 positions, or approximately 11% of the National Store Support Center ( NSSC ) employee base. In addition, we incurred charges related to the separation agreement with our former Chief Executive Officer. In connection with these actions, we recorded approximately \$10.0 million of personnel separation costs within selling, general and administrative expenses on the income statement. The following table summarizes the severance and workforce reduction liability for each period as indicated (amounts in thousands):

	<b>Twenty-Six Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Beginning balance	\$ 116	\$ 8,698	\$	\$ 6,078
Payments	\$ (116)	\$ (7,510)	\$	\$ (4,890)
Ending balance	\$	\$ 1,188	\$	\$ 1,188

**Note 4. Income Taxes**

Our uncertain tax positions were \$6.6 million and \$6.9 million at July 31, 2010 and January 30, 2010, respectively. As of July 31, 2010, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months. We are currently subject to income tax examinations by various states, but do not expect the resolution of the examinations will have a material impact on our financial position, results of operations, or liquidity.

Our effective tax rate decreased for the current quarter to 36.2% compared to 37.9% in the second quarter of last year due primarily to favorable state audit settlements and state refund claims. In addition, our effective tax rate in the second quarter of last year was higher due to a true up of the estimated annual effective tax rate as calculated in accordance with U.S. GAAP.



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**(Unaudited)**

**(in thousands, except share and per share amounts)**

**Note 4. Income Taxes (continued)**

Our effective tax rate for the twenty-six weeks ended July 31, 2010 is 36.2% compared to an effective tax rate of 37.2% for the twenty-six weeks ended August 1, 2009. Our effective tax rate was lower in the current twenty-six week period compared to last year due primarily to favorable state audit settlements, state refund claims and the restoration of a state tax receivable due to a favorable ruling.

**Note 5. Stock-Based Compensation**

*General*

Stock-based compensation awards recognized during the thirteen and twenty-six weeks ended July 31, 2010 and August 1, 2009 consists of compensation expense for all share-based awards granted and is based on the grant date fair value estimated in accordance with the relevant accounting guidance.

For the twenty-six weeks ended July 31, 2010 and August 1, 2009, stock-based compensation expense was \$6.0 million and \$4.2 million, respectively, and for the thirteen weeks ended July 31, 2010 and August 1, 2009, stock-based compensation was \$3.1 million and \$2.0 million, respectively. The total tax benefit associated with stock-based compensation for the twenty-six weeks ended July 31, 2010 and August 1, 2009 was \$2.3 million and \$1.6 million, respectively, and for the thirteen weeks ended July 31, 2010 and August 1, 2009, the total tax benefit associated with stock-based compensation was \$1.2 million and \$0.8 million, respectively. We recognize stock-based compensation costs net of a forfeiture rate for only those shares expected to vest and on a straight-line basis over the requisite service period of the award.

*Methodology Assumptions*

We use the Black-Scholes option-pricing model to value our stock options. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of our stock option awards, which are subject to pro-rata vesting generally over 3 years, is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption inherent in the pricing model is based on the historical volatility of our stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under our stock option plans and represents the period of time that stock option awards granted are expected to be outstanding.

The expected term assumption incorporates the contractual term of an option grant, which is generally ten years, as well as the vesting period of an award, which is generally pro-rata vesting over 3 years. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted. The expected dividend yield is based on the expected annual dividend divided by the market price of our common stock at the time of declaration.

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**Notes to Consolidated Financial Statements**  
**July 31, 2010**  
**(Unaudited)**

**(in thousands, except share and per share amounts)**

**Note 5. Stock-Based Compensation (continued)**

The weighted average assumptions relating to the valuation of our stock options for the twenty-six and thirteen weeks ended July 31, 2010 and August 1, 2009 were as follows:

	<b>Twenty-Six Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Weighted average fair value of grants	\$ 6.89	\$ 2.15	\$ 5.91	\$ 4.98
Expected volatility	66%	62%	66%	65%
Expected term (years)	4.5	4.5	4.5	4.5
Risk-free interest rate	2.1%	1.8%	1.8%	2.2%
Expected dividend yield	1.0%	N/A	1.3%	N/A

*Performance-based Awards*

In fiscal 2009, we granted David F. Dyer, our President and Chief Executive Officer, a performance award under which he was eligible to receive up to 133,333 shares, contingent upon the achievement of certain Company-specific performance goals in fiscal 2009. At the time of the grant, 100,000 shares, which represented the targeted number of shares under the grant, were issued to Mr. Dyer as restricted shares. The grant provided for vesting of all performance shares issued (whether issued at the time of grant or as additional shares earned at the end of the performance measurement period) three years from the date of grant. After the end of fiscal 2009, our Board s Compensation and Benefits Committee determined that the Company had achieved the performance goals and that Mr. Dyer earned 133,333 shares. Accordingly, in the first quarter of fiscal 2010, we issued Mr. Dyer 33,333 restricted shares, which were in addition to the 100,000 restricted shares issued to him at the time of the fiscal 2009 grant. We account for the award by recording compensation expense, based on the 133,333 shares earned, on a straight-line basis over the 3-year service period.

In the first quarter of fiscal 2010, a new performance-based stock award was granted to Mr. Dyer. Similar to the 2009 grant, under this performance award, Mr. Dyer is eligible to receive up to 133,333 shares, contingent upon the achievement of certain Company-specific performance goals during fiscal 2010. At the time of the grant, 100,000 shares, which represented the targeted number of shares under the grant, were issued to Mr. Dyer as restricted shares. Any shares earned as a result of the achievement of such goals (whether issued at the time of grant or as additional shares earned at the end of the performance measurement period) will vest two years from the date of grant. We are recording compensation expense, based on the number of shares ultimately expected to vest, recognized on a straight-line basis over the 2-year service period. Additionally, we reevaluate the amount of compensation expected to be earned at the end of each reporting period and record an adjustment, if necessary.

Also, in the first quarter of fiscal 2010, certain of our executive officers were granted Performance Stock Units ( PSU ). Each PSU award has the ability to be converted into shares on the second anniversary of the grant date upon the achievement of certain Company-specific performance goals for fiscal 2011. Based on the level of achievement of the performance goals, the participants in this award may earn up to 100% of the units awarded. Similar to the performance awards granted to Mr. Dyer, compensation cost is recognized on a straight-line basis over the vesting period, based on the number of shares ultimately expected to vest and depending on the level and likelihood of the performance condition being met. Additionally, we reevaluate the amount of compensation expected to be earned at the end of each reporting period and record an adjustment, if necessary.

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**July 31, 2010**  
**(Unaudited)**

**(in thousands, except share and per share amounts)**

**Note 5. Stock-Based Compensation (continued)***Stock-Based Compensation Activity*

As of July 31, 2010, 6,854,491 nonqualified options are outstanding at a weighted average exercise price of \$13.02 per share. The following table presents a summary of our stock options activity for the twenty-six weeks ended July 31, 2010:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	6,288,358	\$ 12.54
Granted	1,042,800	13.69
Exercised	(224,816)	4.55
Canceled or expired	(251,851)	11.26
Outstanding, end of period	6,854,491	13.02
Exercisable at July 31, 2010	3,758,509	17.26

The following table presents a summary of our restricted stock activity for the twenty-six weeks ended July 31, 2010:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested, beginning of period	816,677	\$ 6.76
Granted	414,169	13.19
Vested	(173,057)	9.78
Canceled	(86,749)	10.02
Nonvested, end of period	971,040	8.67

Approximately 7.3 million shares remain available under our Omnibus Stock and Incentive Plan for future grants of either stock options, restricted stock or restricted stock units, stock appreciation rights ( SARs ) or performance shares.

**Note 6. Net Income Per Share**

In June 2008, accounting guidance was issued related to share-based awards that qualify as participating securities. In accordance with this guidance, unvested share-based payment awards that include non-forfeitable rights to dividends, whether paid or unpaid, are considered participating securities. As a result, such awards are required to be included in the calculation of basic earnings per common share pursuant to the two-class method. For us, participating securities are generally comprised of unvested restricted stock awards.

Basic EPS is determined using the two-class method and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options.



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**Notes to Consolidated Financial Statements**  
**July 31, 2010**  
**(Unaudited)**

(in thousands, except share and per share amounts)

**Note 6. Net Income Per Share (continued)**

The following table sets forth the computation of basic and diluted EPS shown on the face of the accompanying consolidated statements of income:

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
<b>Numerator</b>				
Net income	\$ 65,856	\$ 29,394	\$ 30,455	\$ 14,905
Net income allocated to participating securities	(440)		(216)	
Net income available to common shareholders	\$ 65,416	\$ 29,394	\$ 30,239	\$ 14,905
<b>Denominator</b>				
Weighted average common shares outstanding basic	177,417,471	177,191,711	177,499,286	177,227,833
Dilutive effect of stock options outstanding	1,389,066	829,169	1,275,130	1,337,891
Weighted average common and common equivalent shares outstanding diluted	178,806,537	178,020,880	178,774,416	178,565,724
Net income per common share:				
Basic	\$ 0.37	\$ 0.17	\$ 0.17	\$ 0.08
Diluted	\$ 0.37	\$ 0.17	\$ 0.17	\$ 0.08

For the thirteen weeks ended July 31, 2010 and August 1, 2009, 3,445,097 and 2,981,593 potential shares of common stock, respectively, were excluded from the computation of diluted EPS relating to stock option awards because the effect of including these potential shares would have been anti-dilutive.

For the twenty-six weeks ended July 31, 2010 and August 1, 2009, 3,306,313 and 4,837,712 potential shares of common stock, respectively, were excluded from the computation of diluted EPS relating to stock option awards because the effect of including these potential shares would have been anti-dilutive.

**Note 7. Fair Value Measurements**

Our financial instruments consist of cash and cash equivalents, marketable securities, trade receivables and payables. The carrying values of cash and cash equivalents, marketable securities, trade receivables and trade payables approximate current fair value due to the short-term nature of the instruments.

Marketable securities are classified as available-for-sale and consist of variable rate demand notes, which are considered highly liquid, variable rate municipal debt securities, municipal bonds, asset-backed securities, corporate bonds and U.S. treasury securities. Although the variable rate demand notes, totaling \$230.7 million as of July 31, 2010, have long-term nominal maturity dates ranging from 2011 to 2049, the interest rates generally reset weekly. Despite the long-term nature of the underlying securities of the variable rate demand notes, we believe we have the ability to quickly liquidate or put back these securities. The remainder of the portfolio, as of July 31, 2010, consisted of \$115.0 million of securities with maturity dates less than one year and \$124.1 million with maturity dates over one year and less than or equal to three years.

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**Chico s FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
July 31, 2010  
(Unaudited)**

**(in thousands, except share and per share amounts)**

**Note 7. Fair Value Measurements (continued)**

We consider all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classify these securities as short-term investments within current assets on the consolidated balance sheets. Marketable securities are carried at market value, with the unrealized holding gains and losses, net of income taxes, reflected as a separate component of stockholders' equity until realized. For the purposes of computing realized and unrealized gains and losses, cost is determined on a specific identification basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Entities are required to use a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or; Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or; Inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability.

We measure certain financial assets at fair value on a recurring basis, including our marketable securities, which are classified as available-for-sale securities, certain cash equivalents, specifically our money market accounts, and assets held in our non-qualified deferred compensation plan. The money market funds are valued based on quoted market prices in active markets. Our marketable securities are generally valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as yield curves) except for U.S. treasury holdings which are valued based on quoted market prices in active markets. The investments in our non-qualified deferred compensation plan are valued using quoted market prices and are included in other assets on our consolidated balance sheets.

From time to time, we measure certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment and previously, our note receivable. We estimate the fair value of our long-lived assets using company-specific assumptions which would fall within Level 3 of the fair value hierarchy. In prior periods, the note receivable's value was based on the value of the underlying real estate collateral as determined by an independent third party using observable market data, which resulted in a Level 2 classification. During the second quarter of 2010, the underlying real estate collateral was repossessed by us in full satisfaction of the note receivable.

New guidance on financial instruments measured at fair value requires additional disclosures regarding significant transfers into and out of Level 1 and Level 2 as well as more detailed discussions regarding Level 3 activity. We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure. During fiscal 2010, we did not make significant transfers between Level 1 and Level 2 assets. Furthermore, as of July 31, 2010, January 30, 2010 and August 1, 2009, we did not have any Level 3 financial assets.

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**Chico s FAS, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**July 31, 2010**  
**(Unaudited)**

**(in thousands, except share and per share amounts)**

**Note 7. Fair Value Measurements (continued)**

In accordance with the provisions of the guidance, we categorized our financial assets, whether valued on a recurring or non-recurring basis, based on the priority of the inputs to the valuation technique for the instruments, as follows (amounts in thousands):

	Balance as of July 31, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Current Assets</b>				
<i>Cash equivalents:</i>				
Money market account	\$ 1,467	\$ 1,467	\$	\$
<i>Marketable securities:</i>				
Variable rate demand notes	230,728		230,728	
Municipal securities	158,557		158,557	
U.S. government securities	59,130	59,130		
Corporate bonds	12,453		12,453	
Asset-backed securities	8,961		8,961	
<b>Non Current Assets</b>				
Deferred compensation plan	3,815	3,815		
<b>Total</b>	\$ 475,111	\$ 64,412	\$ 410,699	\$

	Balance as of January 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Current Assets</b>						
<i>Cash equivalents:</i>						

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Money market account	\$ 8,256	\$ 8,256	\$	\$
<i>Marketable securities:</i>				
Variable rate demand notes	207,895			207,895
Municipal securities	111,153			111,153
U.S. government securities	33,383	33,383		
Corporate bonds	12,826			12,826
Asset-backed securities	21,243			21,243
<b>Non Current Assets</b>				
Note receivable	20,000			20,000
Deferred compensation plan	4,050	4,050		
<b>Total</b>	<b>\$ 418,806</b>	<b>\$ 45,689</b>	<b>\$</b>	<b>373,117</b>

	<b>Balance as of August 1, 2009</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Current Assets</b>				
<i>Cash equivalents:</i>				
Money market account	\$ 5,024	\$ 5,024	\$	\$
<i>Marketable securities:</i>				
Variable rate demand notes	308,457			308,457
Municipal securities	8,021			8,021
U.S. government securities	10,390	10,390		
Asset-backed securities	6,499			6,499
<b>Non Current Assets</b>				
Note receivable	22,000			22,000
Deferred compensation plan	3,798	3,798		
<b>Total</b>	<b>\$ 364,189</b>	<b>\$ 19,212</b>	<b>\$</b>	<b>344,977</b>

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the accompanying unaudited consolidated financial statements and notes thereto and our 2009 Annual Report to Stockholders.

**Executive Overview**

We are a specialty retailer of private branded, sophisticated, casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing gift items operating under the Chico's, White House | Black Market ( WHIBM ), and Soma Intimates ( Soma ) brand names. We earn revenues and generate cash through the sale of merchandise in our retail stores, on our various websites and through our call centers, which take orders for all of our brands.

For fiscal 2010, we continue to focus on the initiatives that contributed to our success last year. These initiatives include: 1) rebuilding the Chico's business into a high performance brand, 2) growing the WHIBM and Soma brands, 3) accelerating direct-to-consumer ( DTC ) sales growth, 4) improving our cost structure and inventory control, and 5) achieving a level of profitability in fiscal 2011 comparable to what we achieved in fiscal 2005, previously our highest earnings year.

Our financial results in the second quarter of 2010 represent a significant improvement over last year's second quarter as we remain focused on our key initiatives. Earnings per diluted share increased to \$0.17 per diluted share in this year's second quarter from \$.08 per diluted share in last year's second quarter.

The Chico's brand experienced improvement in its financial performance quarter over quarter, although this improvement was tempered somewhat by decelerating sales in July. The quarter's improvement was achieved by continuing to provide our customers with amazing customer service and to focus on expanding its made-for-outlet product offerings.

In the second quarter, the WHIBM brand posted its highest quarterly sales total in the brand's history. We believe the WHIBM brand is positioned for continued growth and we remain focused on expanding this brand through enhanced product offerings and new store openings.

**Financial Highlights for the Second Quarter of 2010**

Net sales for the thirteen-week period ended July 31, 2010 ( current period ) increased 10.8% to \$465.4 million compared to \$419.9 million for the thirteen-week period ended August 1, 2009 ( prior period ), driven by a consolidated comparable store sales increase of 6.4% compared to an increase of 1.3% in the prior period and a 36.0% increase in DTC sales in the current period to \$27.6 million.

The gross margin rate increased to 55.7% from 55.0% in the prior period, and operating income was \$47.4 million compared to operating income in the prior period of \$24.0 million.

Selling, general and administrative expenses for the current period, as a percentage of total net sales, improved 380 basis points compared to last year's second quarter mainly due to the leverage associated with the comparable store sales increase.

Net income in the current period was \$30.5 million compared to net income of \$14.9 million in the prior period, and earnings per diluted share increased to \$0.17 compared to \$0.08 in the prior period. Net income for the prior period included \$3.1 million, net of tax, non-cash impairment charges.

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Cash and marketable securities at the end of the quarter were \$487.4 million, an increase of \$109.9 million over last year's second quarter, after considering we paid \$14.3 million of dividends so far this year.

Our Board of Directors has authorized the repurchase of up to \$200 million of our outstanding common stock through the end of fiscal 2012. Repurchases under the program will be made in open market or privately negotiated transactions in compliance SEC Rule 10b-18. We intend to fund the repurchase program from cash on hand and retire any shares repurchased.

**Future Outlook**

Although the current environment makes it difficult to predict future results with any degree of certainty, we are currently forecasting a single digit increase in comparable store sales for the remainder of fiscal 2010. We also expect an increase in selling, general and administrative expenses in dollars as we plan to open 35 stores in the second half of the year as well as incur higher marketing costs in the range of \$8-\$10 million over the second half of last year.

**Results of Operations Thirteen Weeks Ended July 31, 2010 Compared to the Thirteen Weeks Ended August 1, 2009.****Net Sales**

The following table depicts net sales for the Chico's/Soma and WHIBM brands in dollars and as a percentage of total net sales for the thirteen weeks ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Thirteen Weeks Ended</b>			
	<b>July 31, 2010</b>		<b>August 1, 2009</b>	
Net Sales:				
Chico's/Soma Intimates	\$ 319,660	68.7%	\$ 294,602	70.2%
White House   Black Market	145,711	31.3	125,313	29.8
Total net sales	\$ 465,371	100.0%	\$ 419,915	100.0%

Net sales by the Chico's, WHIBM and Soma brands increased from the prior period primarily due to positive comparable store sales, new store openings, as well as increases in DTC sales for all brands. DTC sales are not included in comparable store sales. A summary of the factors impacting quarter-over-quarter sales increases is provided in the table below (dollar amounts in thousands):

	<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Comparable store sales increases	\$ 25,017	\$ 5,236
Comparable store sales %	6.4%	1.3%
New stores sales increase, net	\$ 13,136	\$ 3,045
Direct-to-consumer sales increases	\$ 7,303	\$ 6,416

The consolidated comparable store sales increase of 6.4% in the current period was driven by an approximate 7% increase in transactions at Chico's front-line stores, offset by a decrease in units per transaction. Comparable store sales results also benefited from an approximate 7% increase in transactions at WHIBM front-line stores together with a 4% increase in units per transaction compared to the prior period. The Chico's/Soma brands' comparable store sales increased by 4.3% and the WHIBM brand's comparable store sales increased by 11.2% compared to the prior period.

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Net sales for the DTC channel in the current period, which are included in each brand's total net sales, increased by \$7.3 million, or 36.0%, compared to net sales for the DTC channel in the prior period. All three brands generated increases above 30% for the quarter which we believe are attributable to enhanced website functionality and improved online product offerings.

**Cost of Goods Sold/Gross Margin**

The following table depicts cost of goods sold and gross margin in dollars and the related gross margin percentages for the thirteen weeks ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Cost of goods sold	\$ 206,164	\$ 188,874
Gross margin	\$ 259,207	\$ 231,041
Gross margin percentage	55.7%	55.0%

Gross margin as a percentage of net sales for the current quarter improved to 55.7% compared to 55.0% in the second quarter of fiscal 2009. The improvement in gross margin percentage is primarily due to higher margins for the WHIBM brand and continued gross margin improvement at Chico's outlet stores resulting from increased penetration of made-for-outlet product. These improvements were partially offset by decreased merchandise margins at Chico's front-line stores primarily due to higher markdowns in the month of July.

**Selling, General and Administrative Expenses**

The following tables depict store and direct operating expenses, marketing, and National Store Support Center expenses in dollars and as a percentage of total net sales for the thirteen weeks ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Store and direct operating expenses	\$ 164,853	\$ 157,180
Percentage of total net sales	35.4%	37.4%

Store and direct operating expenses include store and DTC operational expenses, and reflect such items as personnel, occupancy, credit card fees, depreciation and supplies incurred to operate each of our stores and the DTC channel. In addition, store and direct operating expenses include support expenditures for district and regional management and other store support functions. Store and direct operating expenses increased in dollars in the current period primarily due to increased occupancy expense, store labor costs, and higher credit card fees associated with approximately 50 net new opened stores over last year and higher sales volume versus last year. Expressed as a percentage of net sales, store and direct operating expenses decreased by 200 basis points primarily due to leverage from a greater comparable store sale increase.

	<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Marketing	\$ 18,011	\$ 16,168
Percentage of total net sales	3.9%	3.9%

Marketing expenses include marketing programs such as direct marketing efforts, national advertising expenses via various media and related support costs. Marketing expenses increased in dollars due to increased spending on television, online and print media campaigns; but when expressed as a percentage of net sales, marketing expenses were flat in the current period over the prior period due mainly to leverage from our greater comparable store sales increase.





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	<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
National Store Support Center	\$ 28,982	\$ 28,701
Percentage of total net sales	6.2%	6.8%

National Store Support Center ( NSSC ) expenses consist of the corporate level functions including executive management, human resources, management information systems and finance, among others. In dollars, NSSC expenses increased only slightly over the prior period. Expressed as a percentage of net sales, NSSC expenses decreased in the second quarter by approximately 60 basis points, primarily due to the leverage associated with improved comparable store sales.

**Impairment Charges**

The following table depicts impairment charges in dollars and as a percentage of total net sales for the thirteen weeks ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Thirteen Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Impairment charges	\$ 0	\$ 4,968
Percentage of total net sales	0.0%	1.2%

The non-cash impairment charges recognized in the second quarter of fiscal 2009 totaled \$5.0 million, or \$3.1 million net of tax, and were related to the partial write-off of a note receivable which was determined to be impaired and the write-off of fixed assets at certain underperforming stores. No impairment charges were recorded in the second quarter of fiscal 2010.

**Provision for Income Taxes**

Our effective tax rate decreased for the current period to 36.2% compared to 37.9% in the prior period due primarily to favorable state audit settlements and state refund claims. In addition, our effective tax rate in the prior period was higher due to a true up of the estimated annual effective tax rate as calculated in accordance with generally accepted accounting principles.

**Table of Contents****Results of Operations Twenty-Six Weeks Ended July 31, 2010 Compared to the Twenty-Six Weeks Ended August 1, 2009.****Net Sales**

The following table depicts net sales for the Chico s/Soma and WHIBM brands in dollars and as a percentage of total net sales for the year-to-date period ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Twenty-Six Weeks Ended</b>			
	<b>July 31, 2010</b>		<b>August 1, 2009</b>	
Net Sales:				
Chico s/Soma Intimates	\$ 656,361	69.3%	\$ 582,524	70.1%
White House   Black Market	290,598	30.7	248,033	29.9
Total net sales	\$ 946,959	100.0%	\$ 830,557	100.0%

Net sales by the Chico s, WHIBM and Soma brands for the year-to-date period ended July 31, 2010 increased from the prior year s comparable period primarily due to positive comparable store sales, new store openings, as well as increases in DTC sales for all brands. DTC sales are not included in comparable store sales. A summary of the factors impacting period-over-period sales increases is provided in the table below (dollar amounts in thousands):

	<b>Twenty-Six Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Comparable store sales increases (decreases)	\$ 82,953	\$ (7,170)
Comparable store sales %	10.6%	(0.9)%
New stores sales increase, net	\$ 19,252	\$ 10,579
Direct-to-consumer sales increases	\$ 14,197	\$ 12,365

The consolidated comparable store sales increase of 10.6% in the year-to-date period was driven by an approximate 13% increase in transactions at Chico s front-line stores, offset by a decrease in units per transaction. Comparable store sales results also benefited from an approximate 9% increase in transactions at the WHIBM brand coupled with an approximate 4% increase in units per transaction in the year-to-date period from the prior year s comparable period. The Chico s/Soma brands comparable store sales increased by 9.5% and the WHIBM brand s comparable store sales increased by 13.3% for the year-to-date period compared to the prior period.

Net sales for the DTC channel for the year-to-date period, which are included in each brand s total net sales, increased by \$14.2 million, or 33.6%, compared to net sales for the DTC channel in the prior year s comparable period. This increase is primarily attributable to an approximate 37% increase for the Chico s brand as well as similar increases in DTC sales for the WHIBM and Soma brands. We believe the increased sales from our DTC channel are due to our continued focus on this previously underinvested channel including enhanced website functionality and improved online product offerings.

**Table of Contents****Cost of Goods Sold/Gross Margin**

The following table depicts cost of goods sold and gross margin in dollars and the related gross margin percentages for the twenty-six weeks ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Twenty-Six Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Cost of goods sold	\$ 406,173	\$ 366,128
Gross margin	\$ 540,786	\$ 464,429
Gross margin percentage	57.1%	55.9%

Gross margin as a percentage of sales for the year-to-date period improved to 57.1% compared to 55.9% for the comparable period last year. The improvement in gross margin percentage is primarily attributable to improved merchandise margins at WHIBM stores and an improvement in merchandise margins at the Chico's outlet stores due to increased penetration of made-for-outlet product.

**Selling, General and Administrative Expenses**

The following tables depict store and direct operating expenses, marketing, and National Store Support Center expenses in dollars and as a percentage of total net sales for the twenty-six weeks ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Twenty-Six Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Store and direct operating expenses	\$ 332,679	\$ 317,375
Percentage of total net sales	35.1%	38.2%

Store and direct operating expenses include store and DTC operational expenses, and reflect such items as personnel, occupancy, credit card fees, depreciation and supplies incurred to operate each of our stores and the DTC channel. In addition, store and direct operating expenses include support expenditures for district and regional management and other store support functions. Store and direct operating expenses increased in dollars for the year-to-date period primarily due to (i) increases in store personnel costs associated with higher sales, (ii) costs associated with approximately 50 net new store openings over last year and (iii) higher credit card fees associated with the increase in sales compared to the prior year-to-date period. Expressed as a percentage of net sales, store and direct operating expenses decreased by 310 basis points primarily due to the leverage from improved comparable store sales.

	<b>Twenty-Six Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Marketing	\$ 47,091	\$ 34,002
Percentage of total net sales	5.0%	4.1%

Marketing expenses include marketing programs such as direct marketing efforts, national advertising expenses via various media and related support costs. Expressed as a percentage of net sales, marketing expenses increased by approximately 90 basis points in the year-to-date period over the prior year's comparable period due mainly to planned increases related to television, online and print media campaigns.

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	<b>Twenty-Six Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
National Store Support Center	\$ 57,782	\$ 54,235
Percentage of total net sales	6.1%	6.5%

National Store Support Center ( NSSC ) expenses consist of the corporate level functions including executive management, human resources, management information systems and finance, among others. NSSC expenses increased in the current year-to-date period mainly due to increased recruiting and technology costs. Expressed as a percentage of net sales, NSSC expenses decreased in the year-to-date period by approximately 40 basis points, primarily due to the leverage associated with improved comparable store sales.

**Impairment Charges**

The following table depicts impairment charges in dollars and as a percentage of total net sales for the twenty-six weeks ended July 31, 2010 and August 1, 2009 (dollar amounts in thousands):

	<b>Twenty-Six Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Impairment charges	\$ 822	\$ 13,026
Percentage of total net sales	0.1%	1.6%

The non-cash impairment charges recognized in the first twenty-six weeks of fiscal 2010 related to the write-off of fixed assets at certain underperforming stores.

The impairment charges recognized in the twenty-six weeks of fiscal 2009 include the following: 1) the write-off of development costs for software applications totaling \$8.1 million; 2) the partial write-off of a note receivable totaling \$3.8 million; and 3) \$1.1 million in impairment charges related to the write-off of fixed assets at certain underperforming stores.

**Provision for Income Taxes**

Our effective tax rate for the twenty-six weeks ended July 31, 2010 is 36.2% compared to an effective tax rate of 37.2% for the twenty-six weeks ended August 1, 2009. Our effective tax rate was lower in the current twenty-six week period compared to last year due primarily to favorable state audit settlements, state refund claims and the restoration of a state tax receivable due to a favorable ruling.

**Table of Contents****Liquidity and Capital Resources**

Our ongoing capital requirements have been and are for funding capital expenditures for the continued improvement in information technology tools, for new, expanded, relocated and remodeled stores, for our distribution centers and other central support facilities, and for the planned expansion of our NSSC campus.

The following table depicts our capital resources as of July 31, 2010 and August 1, 2009 (amounts in thousands):

	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Cash and cash equivalents	\$ 17,559	\$ 44,143
Marketable securities	\$ 469,829	\$ 333,367
Working capital	\$ 464,400	\$ 345,951

Working capital as of July 31, 2010 increased compared to August 1, 2009 resulting primarily from higher cash and marketable securities amounts attributable to our improved operating results. The significant components of working capital are cash and cash equivalents, marketable securities, receivables and inventories, reduced by current liabilities.

Based on past performance and current expectations, we believe that our cash and cash equivalents, marketable securities and cash generated from operations will satisfy working capital needs, future capital expenditures (see *New Store Openings and Infrastructure Investments* ), commitments, dividend payments, potential share repurchases and other liquidity requirements associated with our operations through at least the next 12 months. Furthermore, while it is our intention to continue to pay a quarterly cash dividend for the rest of the year and beyond, any determination to pay future dividends will be made by the Board of Directors and will depend on future earnings, financial condition and other factors.

***Operating Activities***

Net cash provided by operating activities was \$109.9 million and \$144.4 million for the twenty-six weeks ended July 31, 2010 and August 1, 2009, respectively. The \$34.5 million decrease in cash flows from operating activities in the current period from the prior period resulted primarily due to changes in working capital offset by higher net income.

***Investing Activities***

Net cash used in investing activities was \$117.3 million and \$127.6 million for the twenty-six weeks ended July 31, 2010 and August 1, 2009, respectively.

We had net purchases of \$82.9 million of marketable securities in the current year-to-date period compared to net purchases of \$91.3 million of marketable securities in last year's comparable year-to-date period.

Our approximate \$1.9 million decrease in capital expenditures in the current year-to-date period when compared to last year's year-to-date period was primarily related to decreased distribution center improvements. However, this decrease was almost entirely offset by higher capital investments associated with new, relocated, remodeled and expanded Chico's/Soma and WHIBM stores, as well as improvements at our NSSC campus.

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***Financing Activities***

Net cash used in financing activities was \$12.1 million during the twenty-six weeks ended July 31, 2010 compared to net cash provided by financing activities of \$0.8 million for the twenty-six weeks ended August 1, 2009.

Through the first six months of fiscal 2010, we made two quarterly \$0.04 per share cash dividend payments on our common stock totaling \$14.3 million. In the current and prior year-to-date periods, we received proceeds from both the issuance of common stock related to option exercises and employee participation in our employee stock purchase plan.

**New Store Openings and Infrastructure Investments**

During the first six months of fiscal 2010, we had 38 net store openings consisting of 25 Soma net openings, 8 Chico's net openings and 5 WHIBM net openings. Currently, we expect our overall square footage in fiscal 2010 to increase approximately 6%, reflecting approximately 8-10 net openings of Chico's stores, 13-15 net openings of WHIBM stores, approximately 40 net openings of Soma stores (which does not include Soma's sister stores) and 14-16 relocations/expansions. We continuously evaluate the appropriate new store growth rate in light of economic conditions and may adjust the growth rate as conditions require or as opportunities arise.

We believe that the liquidity needed for new stores (including the continued investment associated with the Soma brand), our continuing store remodel/expansion program, investments in improvements and expansions of our NSSC and distribution centers, continued installation and upgrading of new and existing software packages, and investment in inventory levels associated with this growth will be funded primarily from cash flow from operations and our existing cash and marketable securities balances, and, if necessary, the capacity included in our bank credit facility.

At the beginning of fiscal 2010, we completed the second major phase of our multi-year, planned implementation of our ERP system. We are currently utilizing this system in all of our brands. The third major phase includes on-going enhancements and optimization of the new ERP across all three brands, as well as the deployment of additional functionality across various other functions.

In fiscal 2009, we purchased JDA Enterprise Planning, JDA Assortment Planning and JDA Allocation software applications instead of previously planned implementations of related SAP applications and revised our roll out plan accordingly. We completed the implementation of the allocation functionality during fiscal 2009 and are currently working on implementing the remaining JDA planning applications. We expect to substantially complete installation of the remaining JDA applications by the end of fiscal 2010, with full utilization of such applications to occur over the next 18 months.

Given our existing cash and marketable securities balances and the capacity included in our bank credit facility, we do not believe that we will need to seek other sources of financing to conduct our operations, pay future dividends, repurchase shares under our recently announced program or pursue our expansion plans even if cash flow from operations should prove to be less than anticipated or if there should arise a need for additional letter of credit capacity due to establishing new and expanded sources of supply, or if we were to increase the number of new stores planned to be opened in future periods.

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**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors, and believes the assumptions and estimates, as set forth in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010, are significant to reporting our results of operations and financial position. There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

**Inflation**

Our operations are influenced by general economic conditions. Historically, inflation has not had a material effect on the results of operations.

**Quarterly Results and Seasonality**

Our quarterly results may fluctuate significantly depending on a number of factors including timing of new store openings, adverse weather conditions, the spring and fall fashion lines and shifts in the timing of certain holidays. In addition, our periodic results can be directly and significantly impacted by the extent to which new merchandise offerings are accepted by customers and by the timing of the introduction of such merchandise.

**Certain Factors That May Affect Future Results**

This Form 10-Q may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our current views with respect to certain events that could have an effect on our future financial performance, including but without limitation, statements regarding future growth rates of our store concepts. The statements may address items such as future sales, gross margin expectations, operating margin expectations, earnings per share expectations, planned store openings, closings and expansions, future comparable store sales, future product sourcing plans, inventory levels, planned marketing expenditures, planned capital expenditures and future cash needs. In addition, from time to time, we may issue press releases and other written communications, and our representatives may make oral statements, which contain forward-looking information.

These statements, including those in this Form 10-Q and those in press releases or made orally, may include the words expects, believes, and similar expressions. Except for historical information, matters discussed in such oral and written statements, including this Form 10-Q, are forward-looking statements. These forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from historical results or those currently anticipated. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and in Item 1A, Risk Factors in our Annual Report on Form 10-K filed with the SEC on March 24, 2010.



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These potential risks and uncertainties include the financial strength of retailing in particular and the economy in general, the extent of financial difficulties that may be experienced by customers, our ability to secure and maintain customer acceptance of styles and store concepts, the propriety of inventory mix and sizing, the quality of merchandise received from suppliers, the extent and nature of competition in the markets in which we operate, the extent of the market demand and overall level of spending for women's private branded clothing and related accessories, the adequacy and perception of customer service, the ability to coordinate product development with buying and planning, the ability of our suppliers to timely produce and deliver clothing and accessories, the changes in the costs of manufacturing, labor and advertising, the rate of new store openings, the buying public's acceptance of any of our new store concepts, the performance, implementation and integration of management information systems, the ability to hire, train, energize and retain qualified sales associates and other employees, the availability of quality store sites, the ability to expand our NSSC, distribution centers and other support facilities in an efficient and effective manner, the ability to hire and train qualified managerial employees, the ability to effectively and efficiently establish and operate DTC sales operations, the ability to secure and protect trademarks and other intellectual property rights, the ability to effectively and efficiently operate the Chico's, WH|BM, and Soma merchandise divisions, risks associated with terrorist activities, risks associated with natural disasters such as hurricanes and other risks. In addition, there are potential risks and uncertainties that are peculiar to our reliance on sourcing from foreign suppliers, including the impact of work stoppages, transportation delays and other interruptions, political or civil instability, imposition of and changes in tariffs and import and export controls such as import quotas, changes in governmental policies in or towards foreign countries, currency exchange rates and other similar factors.

The forward-looking statements included herein are only made as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Litigation**

In the normal course of business, we are subject to proceedings, lawsuits and other claims including proceedings under laws and government regulations relating to labor, product, intellectual property and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at July 31, 2010, cannot be ascertained. Although these matters could affect the operating results of any one quarter when resolved in future periods, and although there can be no assurance with respect thereto, management believes that, after final disposition, any monetary liability or financial impact to us would not be material to the annual consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The market risk of our financial instruments as of July 31, 2010 has not significantly changed since January 30, 2010. We are exposed to market risk from changes in interest rates on any future indebtedness and our marketable securities.

Our exposure to interest rate risk relates in part to our revolving line of credit with our bank. However, as of July 31, 2010, we did not have any outstanding borrowings on our line of credit and, given our current liquidity position, do not expect to utilize our line of credit in the foreseeable future except for the continuing use of the letter of credit facility portion thereof.

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Our investment portfolio is maintained in accordance with our investment policy which identifies allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. Our investment portfolio consists of cash equivalents and marketable securities, including variable rate demand notes, which are considered highly liquid, variable rate municipal debt securities, municipal bonds, asset-backed securities, corporate bonds, and U.S. treasury securities. Although the variable rate demand notes, totaling \$230.7 million as of July 31, 2010, have long-term nominal maturity dates ranging from 2011 to 2049, the interest rates generally reset weekly. Despite the long-term nature of the underlying securities of the variable rate demand notes, we have the ability to quickly liquidate or put back these securities. The remainder of the portfolio, as of July 31, 2010 consisted of \$115.0 million of securities with maturity dates less than one year and \$124.1 million with maturity dates over one year and less than or equal to three years. We consider all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classify these securities as short-term investments within current assets on the consolidated balance sheets. As of July 31, 2010, an increase of 100 basis points in interest rates would reduce the fair value of our marketable securities portfolio by approximately \$3.9 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of our marketable securities portfolio by approximately \$3.1 million.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective in providing reasonable assurance in timely alerting them to material information relating to us (including our consolidated subsidiaries) and that information required to be disclosed in our reports is recorded, processed, summarized, and reported as required to be included in our periodic SEC filings.

**Changes in Internal Controls**

There were no significant changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the date of the above referenced evaluation. Furthermore, there was no change in our internal control over financial reporting or in other factors during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any legal proceedings, other than various claims and lawsuits arising in the normal course of business, none of which we believe should have a material adverse effect on our financial condition or results of operations.

**ITEM 1A. RISK FACTORS**

In addition to the other information discussed in this report, the factors described in Part I, Item 1A., Risk Factors in our 2009 Annual Report on Form 10-K filed with the SEC on March 24, 2010 should be considered as they could materially affect our business, financial condition or future results. There have not been any significant changes with respect to the risks described in our 2009 Form 10-K, but these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information concerning our purchases of common stock for the periods indicated (dollar amounts in thousands, except per share amounts):

<b>Period</b>	<b>Total Number of Shares Purchased(a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans (b)</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans (b)</b>
May 2, 2010 to May 29, 2010	762	\$ 12.23		\$
May 30, 2010 to July 3, 2010	1,482	\$ 11.03		\$
July 4, 2010 to July 31, 2010		\$		\$
<b>Total</b>	<b>2,244</b>	<b>\$ 11.44</b>		<b>\$</b>

- (a) Consists of 2,244 shares of restricted stock repurchased in connection with employee tax withholding obligations under employee compensation

plans, which are not purchases under any publicly announced plan.

- (b) This table does not include any amounts related to the share repurchase program recently announced by the Company.

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**ITEM 6. EXHIBITS**

(a) The following documents are filed as exhibits to this Quarterly Report on Form 10-Q (exhibits marked with an asterisk have been previously filed with the Commission as indicated and are incorporated herein by this reference):

Exhibit 10.1	Employment letter agreement between the Company and Sara K. Stensrud, dated as of July 6, 2010
Exhibit 10.2	Amended and Restated Chico s FAS, Inc. Cash Bonus Incentive Plan
Exhibit 31.1	Chico s FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer
Exhibit 31.2	Chico s FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer
Exhibit 32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHICOS FAS, INC.

Date: August 27, 2010

By: /s/ David F. Dyer  
David F. Dyer  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 27, 2010

By: /s/ Kent A. Kleeberger  
Kent A. Kleeberger  
Executive Vice President  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting  
Officer)  
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